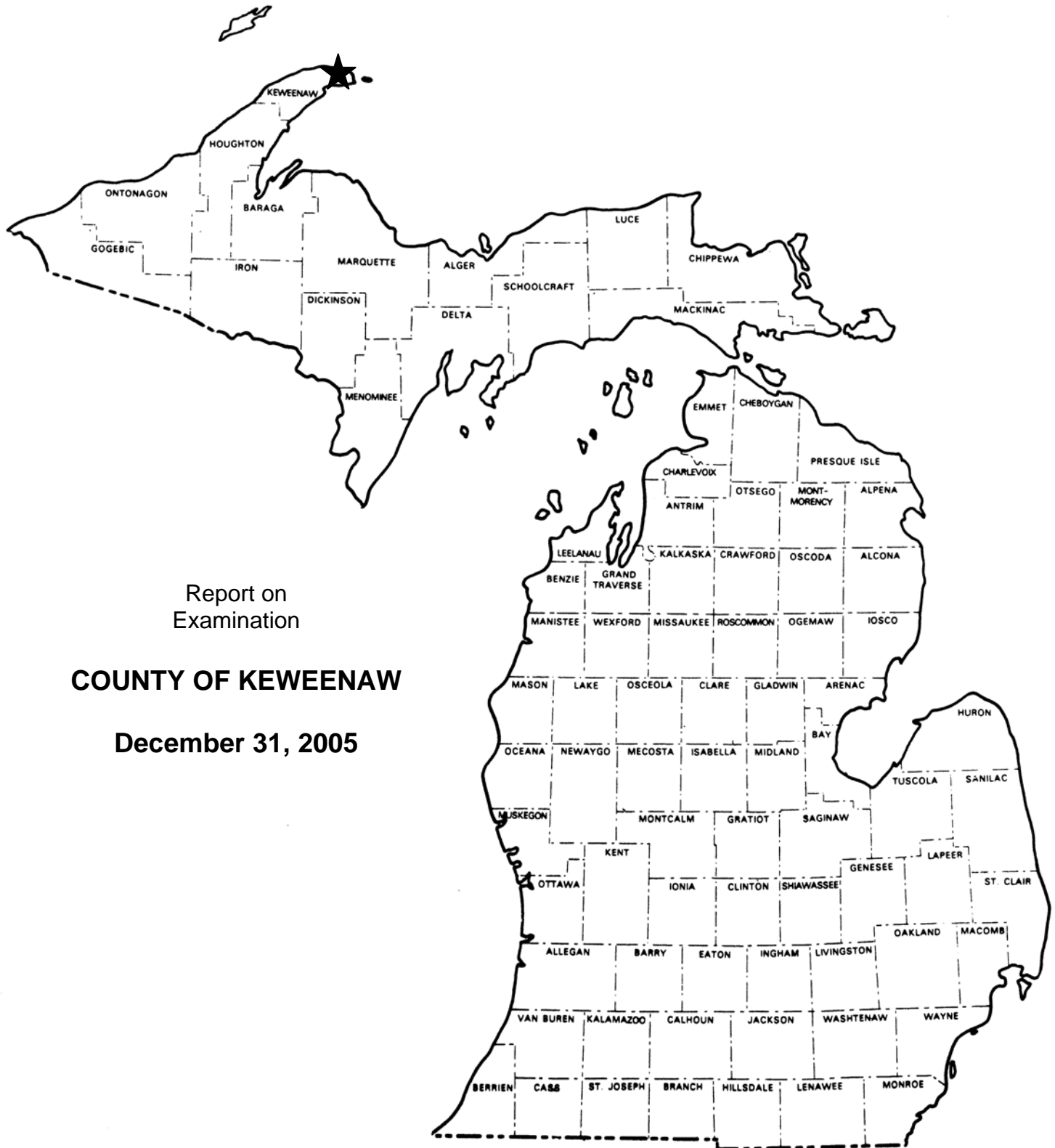


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

COUNTY OF KEWEENAW

December 31, 2005

KEWEENAW COUNTY
BOARD OF COMMISSIONERS

Frank Stubenrauch
Chairperson

Alfred Gunnari

Gordon Roberts

Donald Keith

Clyde H. Westcoat II

COURT JUDGES

Garfield W. Hood
Circuit Judge

James Jaaskelainen
Probate Judge

Phillip L. Kukkonen
District Judge

OTHER ELECTED OFFICIALS

Geri Hall
Treasurer

James Kaura
Mine Inspector

Donna Jaaskelainen
Prosecuting Attorney

Ronald Lahti
Sheriff

Marilyn Winqvist
Clerk and Register of Deeds

COUNTY POPULATION -- 2000
2,299

STATE EQUALIZED VALUATION--2005
\$157,982,481

TAXABLE VALUATION--2005
\$98,447,215



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 21, 2006

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
Unit 1, Box 7
Eagle River, Michigan 49950

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Keweenaw County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the county's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Keweenaw County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note E to the financial statements, the Keweenaw Mountain Lodge had not recorded capital assets in governmental activities from 1988 through 2001 along with the related depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, the net assets, and the expenses of the governmental activities. The amount by which this departure would affect the assets, the net assets and the expenses of the governmental activities is not reasonably determinable. However, most of the smaller equipment would be fully depreciated at this time.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Keweenaw County, Michigan, as of December 31, 2005, and the changes in financial position thereof for the year then ended.

As discussed in Note N of the basic financial statements, the County of Keweenaw has adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*; Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, the discretely presented component unit and the aggregate remaining fund information of the Keweenaw County, as of December 31, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued reports dated September 21, 2006 on our consideration of Keweenaw County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 7 and the Budgetary Comparisons for Major Funds included in Exhibit F through K are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurements and the presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ontonagon County's basic financial statements. The combining nonmajor fund financial statements (Exhibits L through N) and the general fund detail schedule of revenues and expenditures (Exhibits O through P), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and general fund detail schedule of revenues and expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF KEWEENAW

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COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The annual financial report of the County of Keweenaw consists of the following components: 1) Independent Auditor's Report; 2) Management's Discussion and Analysis; 3) the Basic Financial Statements (government-wide financial statements, fund financial statements, notes to the financial statements); 4) Required Supplementary Information such as budget-and-actual comparisons for the General Fund and major Special Revenue Funds; and 5) Other Supplementary Information including combining financial statements for all nonmajor governmental funds.

Government-Wide Financial Statements (Reporting the County as a Whole)

The Statement of Net Assets and the Statement of Activities provide information about the County, as a whole, and present a longer-term view of the County's finances. Their purpose is to assist in answering the question, "Is the County of Keweenaw, in its entirety, better or worse off as a result of this fiscal year's activities?" These statements are reported on the accrual basis of accounting, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets presents all of the County of Keweenaw's assets and liabilities, recording the difference between the two as "net assets." Over time, increases or decreases in net assets measure whether the County of Keweenaw's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the County of Keweenaw's net assets changed during the calendar year 2005. All changes in net assets are reported, regardless of the timing of the related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee personal leave.

Fund Financial Statements (Reporting the County's Major Funds)

The governmental funds financial statements are reported on a modified accrual basis of accounting. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources. The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund financial statements also report the County's operations in more detail than the government-wide financial statements by providing information about the County's most significant funds. Fund financial statements are utilized to track specific operations; these include the General, Mountain Lodge, County 911, Economic Development, Revenue Sharing and Medical Care Facility Funds.

The fiduciary fund statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

The Keweenaw County Road Commission is the only component unit of the County and a separate audit was issued and may be obtained at the Road Commission's office.

Comparison of Government-Wide and Fund Financial Statements

Both statements report governmental activities (the county does not have any business-type activities). Governmental activities include the General Fund and Special Revenue Funds.

Because of the different basis of accounting between the fund statements and the government-wide statements, reconciliations between the two statement types are also presented in this report. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however, depreciation expense is reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as reserves for personal leave (compensated absences), etc., appear as liabilities on the government-wide statements; however, they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, the government-wide financial statements include the net value of the County of Keweenaw's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.

Governmental Activities/Governmental Funds

Most of the County of Keweenaw's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the County of Keweenaw's general government departments such as general government, public safety, recreation programs, and health and welfare programs are reported under these activities.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County of Keweenaw as a Whole

The County's net assets for the governmental funds increased \$119,458 from a year ago for the governmental activities. Because this is the first audit completed after the implementation of Governmental Accounting Standards Board Statement (GASB) No. 34, which requires this new reporting model, the following table presents only current year data. In future years, when prior year information is available, comparative analysis of County data will be presented.

	Governmental Activities
	<u>2005</u>
Current and Other Assets	\$ 1,743,894
Capital Assets	<u>4,424,273</u>
Total Assets	<u>6,168,167</u>
Other Liabilities	867,724
Long-Term Liabilities	<u>36,735</u>
Total Liabilities	<u>904,459</u>
Net Assets	
Invested in Capital Assets--Net of Debt	4,424,273
Restricted	314,103
Unrestricted (Deficit)	<u>525,332</u>
Total Net Assets	<u>\$ 5,263,708</u>

A portion of the County's net assets, in the amount of \$4,424,273, reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The county uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported as net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the county's net assets, \$314,103, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$447,483 represents unrestricted net assets that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances on all of the three categories of net assets.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the December 31, 2005:

	Governmental Activities <u>2005</u>
Program Revenues	
Charges for Services	\$ 1,132,316
Operating Grants and Contributions	416,438
Capital Grants and Contributions	14,170
General Revenues	
Property Taxes	1,142,666
Unrestricted Investment Earnings	<u>44,480</u>
Total Revenues	<u>2,750,070</u>
Program Expenses	
General Government	621,829
Public Safety	645,555
Health and Welfare	293,033
Community and Economic Development	150,155
Recreation and Culture	891,307
Other	29,984
Total Expenses	<u>2,631,863</u>
Excess Revenues Over Expenses Before Special Item	118,207
Special Item: Gain on Sale of Capital Assets	<u>1,251</u>
Change in Net Assets	<u>\$ 119,458</u>

The County's Funds

Our analysis of the County's major funds is detailed in the Notes to the Financial Statements, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2005 include the General Fund, Mountain Lodge, 911 Service Fund, Economic Development, Revenue Sharing, and the Medical Care Facility Funds.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund. The most significant are the general government and the public safety, which incurred expenses of \$615,419 and \$629,991, respectively, during 2005. The Mountain Lodge had the most significant revenues and expenditures which is related to the operation of the Lodge, the restaurant and bar, and the golf course.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed fiscal year 2005, its governmental funds reported are *combined* fund balances of \$876,170, a decrease of \$20,702. The net changes are summarized below:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2005</u>	Amount Difference <u>2005</u>	Percentage Difference <u>2005</u>
Revenues				
Taxes	\$ 957,194	\$ 1,142,666	\$ 185,472	19%
Licenses and Permits	40,404	46,108	5,704	14%
Federal Grants	153,538	112,488	(41,050)	-27%
State Grants	267,828	366,253	98,425	37%
Contributions from Local Units	900	11,434	10,534	1170%
Charges for Services	1,026,535	997,117	(29,418)	-3%
Fines and Forfeits	2,000	2,310	310	16%
Interest and Rentals	46,029	44,480	(1,549)	-3%
Other Revenue	23,633	28,465	4,832	20%
	<u>2,518,061</u>	<u>2,751,321</u>	<u>233,260</u>	<u>9%</u>
Total Revenues				
Expenses				
Current				
General Government	571,640	615,419	43,779	8%
Public Safety	621,429	629,991	8,562	1%
Health and Welfare	227,018	293,033	66,015	29%
Community and Economic Development	118,497	105,428	(13,069)	0%
Recreation and Cultural	935,818	910,307	(25,511)	-3%
Other	50,895	42,318	(8,577)	-17%
Capital Outlay	81,178	175,527	94,349	116%
	<u>2,606,475</u>	<u>2,772,023</u>	<u>165,548</u>	<u>6%</u>
Total Expenditures				
Excess of Revenues Over (Under) Expenditures	<u>(88,414)</u>	<u>(20,702)</u>	<u>67,712</u>	<u>-77%</u>
Other Financing Sources (Uses)				
Interfund Transfers In				
Primary Government	7,166	280,409	273,243	3813%
Interfund Transfers (Out)				
Primary Government	(7,166)	(280,409)	(273,243)	3813%
	<u>-</u>	<u>-</u>	<u>-</u>	<u>0%</u>
Total Other Financing Sources (Uses)				
Beginning Fund Balance	<u>985,286</u>	<u>896,872</u>	<u>(88,414)</u>	<u>-9%</u>
Ending Fund Balance	<u>\$ 896,872</u>	<u>\$ 876,170</u>	<u>\$ (20,702)</u>	<u>-2%</u>

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Act 357 of 2004 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy and additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. The property tax revenue increased by \$185,472 (or 19%) due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund county property tax collections from December to July over a three year period. During that time period, the County will levy 33% more each fiscal year and set aside that amount into the Revenue Sharing Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

Expenditures increased by approximately 6%; mainly due to the increasing cost in Health and Welfare, general government related to state grant reimbursements, and additional capital outlay related to the mountain lodge.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's revenue budget was increased by \$235,998 (21% above the original budget) during fiscal year 2005. Actual General Fund revenue totaled \$1,387,351, which was \$65,737 above the final amended budget. The largest variances were: increase in anticipated State grants, Charges for Services and an increase in property taxes.

The County's expenditure budget was increased by \$61,515 (4.7% over the original budget) during fiscal year 2005. Actual General Fund expenditures totaled \$1,277,582, which was \$89,110 below the final amended budget. The largest variances were: increases in anticipated general government and public safety expenditures.

Capital Asset and Debt Administration

At the end of 2005, the County had \$4,424,273 invested in a broad range of capital assets including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year related primarily to new capital acquisitions at the Mountain Lodge. The Mountain Lodge did not have a detailed listing of its capital assets for the years of 1988-1998. Capital assets for these years are not included in the net capital assets of these financial statements.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the County's only long-term debt consisted of vested employee benefits of \$36,735.

COUNTY OF KEWEENAW

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2006, the County established a 10 member Parks Commission in accordance with State statutes and transferred the responsibility for the administration of the Keweenaw Mountain Lodge from the County Park Trustees (Board of Road Commissioners) to the Parks Commission. The Parks Commission has approved plans for a major capital improvement project at the Mountain Lodge that is expected to be funded with a Federal economic development administration (EDA) grant of \$1,764,000 and a Federal rural development loan of \$1,273,000. The revenue bond loan is expected to have an interest rate of 4.125%, with payment of interest only for the first three years and principal and interest payable over the next 27 years. The bonds will be backed by the full faith and credit of Keweenaw County. The annual debt obligations are expected to be paid from Keweenaw Park operating revenues.

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factors in preparing the 2006 fiscal year budget:

The County's General Fund operating costs, primarily in the areas of wages and fringe benefits, have been increasing faster than their operating revenues. This has resulted in the adoption of a 2006 General Fund budget with a projected excess of expenditures over revenues and corresponding reduction in fund balance of \$277,474. The actual excess is not expected to be that great as the County's budget policy is to provide liberally for budgeted expenditures and conservatively for anticipated revenues. However, the actual 2005 excess of expenditures over revenue was \$50,356.

In an attempt to increase operating revenues, the County called a meeting of the Tax Allocation Board to request a vote on a fixed allocation at the August of 2006 primary election. The ballot proposal was approved by the County's voters resulting in the 2006 allocated county operating millage rate being increased from the 5.6326 mills levied in 2006 to 6.250 mills that will be levied in 2007.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Keweenaw County Clerk's Office at Unit 1, Box 7, Eagle River, Michigan 49950.

KEWEENAW COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

	PRIMARY GOVERNMENT	COMPONENT UNIT
	Governmental Activities	Road Commission
<u>ASSETS</u>		
Current Assets		
Cash	\$ 832,146	\$ 530,398
Receivables		
Current Summer Property Taxes	25,169	
Current Winter Property Taxes	634,546	
Unpaid Delinquent Taxes	22,164	
Due From State	137,183	293,818
Due From Federal Government	54,351	
Due From Local Units of Governments	485	3,597
Inventories		101,226
Prepays	37,850	
Total Current Assets	1,743,894	929,039
Noncurrent Assets		
Capital Assets--Net of Accumulated Depreciation	4,424,273	2,460,817
Total Noncurrent Assets	4,424,273	2,460,817
Total Assets	\$ 6,168,167	\$ 3,389,856
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 114,485	\$ 49,709
Due to State	17,980	
Accrued Liabilities	2,742	42,632
Deferred Revenue	732,517	
Total Current Liabilities	867,724	92,341
Noncurrent Liabilities		
Advances From State		257,473
Installment Purchase Payable--Due Within One Year		5,220
Installment Purchase Payable Payable		15,660
Vested Employee Benefits Payable	36,735	151,227
Total Noncurrent Liabilities	36,735	429,580
Total Liabilities	904,459	521,921
Net Assets		
Investment in Capital Assets--Net of Related Debt	4,424,273	2,439,937
Restricted for		
Family Counseling	6,545	
Act 302 Officer Training	2,716	
Economic Development	84,546	
Special Revenue Programs	220,296	
County Road Projects		427,998
Unrestricted	525,332	
Total Net Assets	\$ 5,263,708	\$ 2,867,935

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

					NET (EXPENSE) REVENUE AND AND CHANGES IN NET ASSETS	
<u>Functions/Programs</u>	PROGRAM REVENUES				PRIMARY GOVERNMENT	COMPONENT UNIT
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Road Commission
Primary Government						
Governmental Activities						
General Government	\$ 621,829	\$ 66,077	\$ 158,339		\$ (397,413)	
Public Safety	645,555	58,077	192,397	\$ 14,170	(380,911)	
Health and Welfare	293,033	900	52,152		(239,981)	
Community and Economic Development	150,155	70,759	13,550	-	(65,846)	
Recreation and Culture	891,307	936,503	-		45,196	
Other	29,984	-			(29,984)	
Total Governmental Activities	2,631,863	1,132,316	416,438	14,170	(1,068,939)	\$ -
Total Primary Government	\$ 2,631,863	\$ 1,132,316	\$ 416,438	\$ 14,170	\$ (1,068,939)	\$ -
Component Unit						
Road Commission	\$ 2,062,733	\$ 646,388	\$ 1,361,410	\$ 536,143		\$ 481,208
Total Component Unit	\$ 2,062,733	\$ 646,388	\$ 1,361,410	\$ 536,143	\$ -	\$ 481,208
General Revenues						
Property Taxes					\$ 1,142,666	
Unrestricted Investment Earnings					44,480	
Special Item						
Gain on Sale of Capital Asset					1,251	\$ 25
Total General Revenues--Special Items and Transfers					1,188,397	25
Change in Net Assets					119,458	481,233
Net Assets--Beginning					5,144,250	2,386,702
Net Assets--Ending					\$ 5,263,708	\$ 2,867,935

The Notes to Financial Statements are an integral part of this statement.

**KEWEENAW COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005**

EXHIBIT C

	SPECIAL REVENUE FUNDS							
	General	Mountain Lodge	County 911	Economic Development	Revenue Sharing	Medical Care Facility	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>								
Current Assets								
Cash	\$ 360,114	\$ 44,054	\$ 144,932	\$ 79,525	\$ 129,406	\$ 7,681	\$ 66,434	\$ 832,146
Receivables								
Current Summer Taxes	25,169							25,169
Current Winter Taxes	436,498					198,048		634,546
Unpaid Delinquent Property Taxes	17,767					4,397		22,164
Due From Governmental Units	485							485
Due From State	93,493		20,014	14,505			9,171	137,183
Due From Federal Government	-	54,351						54,351
Prepaid Expense	-	32,850	5,000					37,850
Total Assets	<u>\$ 933,526</u>	<u>\$ 131,255</u>	<u>\$ 169,946</u>	<u>\$ 94,030</u>	<u>\$ 129,406</u>	<u>\$ 210,126</u>	<u>\$ 75,605</u>	<u>\$ 1,743,894</u>
<u>LIABILITIES AND FUND EQUITY</u>								
Current Liabilities								
Accounts Payable	\$ 24,877	\$ 55,741	\$ 797	\$ 9,484		\$ 18,084	\$ 5,502	\$ 114,485
Customer Deposits Payable		17,980						17,980
Accrued Liabilities	-	2,742						2,742
Deferred Revenue	456,765	54,351				202,445	18,956	732,517
Total Liabilities	<u>481,642</u>	<u>130,814</u>	<u>797</u>	<u>9,484</u>	<u>\$ -</u>	<u>220,529</u>	<u>24,458</u>	<u>867,724</u>
Fund Equity								
Fund Balances								
Reserved for								
Family Counseling	6,545							6,545
Act 302 Officer Training	2,716							2,716
Economic Development				84,546				84,546
Special Revenue Programs			169,149				51,147	220,296
Unreserved--Undesignated	442,623	441			129,406	(10,403)	-	562,067
Total Fund Equity	<u>451,884</u>	<u>441</u>	<u>169,149</u>	<u>84,546</u>	<u>129,406</u>	<u>(10,403)</u>	<u>51,147</u>	<u>876,170</u>
Total Liabilities and Fund Equity	<u>\$ 933,526</u>	<u>\$ 131,255</u>	<u>\$ 169,946</u>	<u>\$ 94,030</u>	<u>\$ 129,406</u>	<u>\$ 210,126</u>	<u>\$ 75,605</u>	<u>\$ 1,743,894</u>
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets								
Fund Balance--Total Governmental Funds								\$ 876,170
Amounts reported for governmental activities in the Statement of Net Assets are different because:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.								4,424,273
Certain liabilities, compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.								(36,735)
Total Net Assets								<u>\$ 5,263,708</u>

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

EXHIBIT D

SPECIAL REVENUE FUNDS								
	General	Mountain Lodge	County 911	Economic Development	Revenue Sharing	Medical Care Facility	Non-Major Governmental	Total Governmental Funds
Revenues								
Taxes and Penalties	\$ 1,014,448					\$ 128,218		\$ 1,142,666
Licenses and Permits	2,186						\$ 43,922	46,108
Federal Grants	72,771						39,717	112,488
State Grants	213,941		\$ 78,194	\$ 31,316			42,802	366,253
Contributions From Local Units	-		2,474				8,960	11,434
Charges for Services	59,253	\$ 936,214	1,650					997,117
Fines and Forfeits	310						2,000	2,310
Interest and Rentals	18,842	4,039		19,920	\$ 1,281		398	44,480
Other Revenue	5,600	289					22,576	28,465
Total Revenues	1,387,351	940,542	82,318	51,236	1,281	128,218	160,375	2,751,321
Expenditures								
Current								
General Government	613,547						1,872	615,419
Public Safety	548,219		39,207				42,565	629,991
Health and Welfare	44,603					167,593	80,837	293,033
Community and Economic Development	14,197			38,963			52,268	105,428
Recreation and Cultural	200	891,107		19,000			-	910,307
Other	29,984			12,334				42,318
Capital Outlay	26,832	148,695						175,527
Total Expenditures	1,277,582	1,039,802	39,207	70,297	-	167,593	177,542	2,772,023
Excess of Revenues Over (Under) Expenditures	109,769	(99,260)	43,111	(19,061)	1,281	(39,375)	(17,167)	(20,702)
Other Financing Sources (Uses)								
Interfund Transfers In--Primary Government	60,142				188,267		32,000	280,409
Interfund Transfers (Out)--Primary Government	(220,267)				(60,142)			(280,409)
Total Other Financing Sources (Uses)	(160,125)	-	-	-	128,125	-	32,000	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(50,356)	(99,260)	43,111	(19,061)	129,406	(39,375)	14,833	(20,702)
Fund Balance (Deficit)--January 1, 2005	502,240	99,701	126,038	103,607	-	28,972	36,314	896,872
Fund Balance (Deficit)--December 31, 2005	\$ 451,884	\$ 441	\$ 169,149	\$ 84,546	\$ 129,406	\$ (10,403)	\$ 51,147	\$ 876,170

The Notes to Financial Statements are an integral part of this statement.

KEWEENAW COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT D-1

NET CHANGE IN FUND BALANCES--TOTAL GOVERNMENTAL FUNDS \$ (20,702)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities the costs of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add--Capital Outlay	175,527
Deduct--Depreciation Expense	(54,566)

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures in
the funds.

Net (Increase) Decrease in Compensated Absences	<u>19,199</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 119,458</u></u>
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The Notes to Financial Statements are an integral part of this statement.

**KEWEENAW COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2005**

EXHIBIT E

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	<u>\$ 227,547</u>
Total Assets	<u><u>\$ 227,547</u></u>
Liabilities	
Due to State of Michigan	\$ 1,601
Undistributed Penal Fines	1,642
Undistributed Tax Collections	223,794
Other Trust Payable	<u>510</u>
Total Liabilities	<u><u>\$ 227,547</u></u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

The accounting policies of Keweenaw County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Keweenaw County:

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Keweenaw County was organized in 1861 and covers an area of 561 square miles divided into 5 townships and 1 village. The County seat is located in Eagle River. Keweenaw County is a municipal corporation governed by an elected five member board of commissioners and provides services to its more than 2,299 residents in many areas including law enforcement, administration of justice, community enrichment, and development and human services. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the county (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The Road Commission is the only component unit and it is included in the county's financial reporting entity because of the significance of its operational or financial relationships with the county.

The component unit columns in the government-wide financial statements (Exhibits A and B) include the financial data of the Keweenaw County Road Commission. The financial statements are reported in separate columns to emphasize that they are legally separate from the county.

Discretely Presented Component Units

The Keweenaw County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval. The Road Commission's property taxes are levied under the taxing authority of the county, as approved by the county electors, are included as part of the county's total tax levy and are reported in the county Road Fund.

Complete audited and/or unaudited financial statements of the Road Commission can be obtained from their administrative offices or from the county clerk's office at the courthouse.

Administrative Offices

Keweenaw County Road Commission
1916 Fourth Street
P.O. Box 327
Mohawk, Michigan 49953

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly Governed Organization--District Health Department

Keweenaw County, in conjunction with Baraga, Gogebic, Houghton and Ontonagon counties, has created the Western Upper Peninsula District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Houghton County as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation. Member counties' percentages and dollar share of the net operating budget for 2005 were:

Ontonagon	12.80%	\$51,142
Baraga	12.90%	51,542
Gogebic	25.50%	101,884
Houghton	43.50%	173,803
Keweenaw	<u>5.30%</u>	<u>21,176</u>
Total	<u>100.00%</u>	<u>\$399,547</u>

Keweenaw County's 2005 actual appropriation to the District Health Department was \$21,176. An additional \$1,015 was appropriated from the State-shared cigarette tax revenues.

Jointly Governed Organization--Community Mental Health Authority

Keweenaw County, in conjunction with Baraga, Houghton and Ontonagon counties, has created the Copper Country Mental Health Services Board, which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended, (Code). During 1996, the jointly created board became a community mental health authority under Section 205 of the Code in accordance with the Urban Cooperation Act. The Copper Country Community Mental Health Services Authority Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by their respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Houghton County as a discretely presented component unit. The funding of the Mental Health Authority operations by the member counties is based on an agreement between the Mental Health Board and member counties, which provides for single annual appropriations to provide for State institution inpatient costs and mental health program costs.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The board approved member county appropriations for 2005 were as follows:

Ontonagon	\$ 48,814
Baraga	33,795
Houghton	164,495
Keweenaw	<u>8,500</u>
Total	<u>\$255,604</u>

Keweenaw County's 2005 appropriation to the Mental Health Board was \$8,500.

Basis of Presentation--Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The county reports the following major governmental funds:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the government's primary operating fund. This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of: (1) general county governmental departments, boards and commissions; (2) court systems; (3) law enforcement; and (4) health, welfare and medical assistance. The fund includes the general operating expenditures of the county.

Special Revenue Funds

These funds are used to account for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, general fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Mountain Lodge

This fund is used to account for the operations of the Mountain Lodge. Revenues are primarily derived from motel/cabin charges, restaurant/bar revenue and golf user fees. The fund includes the operating expenditures relating to the mountain lodge activities.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

911 Services

This fund is used to account for the operations of the County-wide emergency 911 telephone service plan. Revenues are derived from the State's wireless 911 funding allocations and the 4% surcharge on all phone lines servicing Keweenaw County. The fund includes all operating and capital expenditures relative to providing County-wide emergency 911 service.

Economic Development

This fund is used to account for the activity of the economic development program. Revenues during 2005 were primarily derived from a state zoning grant, Cellular One Tower charges and Isle Royale Park fees. Expenditures relate to the zoning and project study projects, and other utility and maintenance costs for YSI.

Revenue Sharing Fund

The Revenue Sharing Fund is the funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax mileage from a winter tax levy to a summer tax levy over a three year period.

Medical Care Facility

This fund is used for providing patient care for county residents that do not have health insurance and meet other requirements. Revenues are derived from property taxes and expenditures are for patient card billings.

FIDUCIARY FUNDS

Agency Funds

These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are by nature custodial; therefore, operation results are not measured.

Keweenaw County applies all Accounting Standards Board (ASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value based on quoted market prices.

Current Property Taxes

Prior to 2005, all county related property taxes were levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

In accordance with the provisions of Michigan Public Act 357 of 2004, the County levied one third of its 2005 county operating millage in the summer of 2005; will levy two thirds of the 2006 county operating millage in the summer of 2006; and 100% of the 2007 county operating millage in the summer of 2007 and subsequent years.

The 2005 current winter property tax revenues of the county's General Fund and Medical Care Facility (Special Revenue Fund) consist of the amount of the 2004 tax levy collected by the township treasurers between December 1, 2004 and February 28, 2005. The 2005 current summer property tax revenues of the county's General Fund consist of 100% of the summer county operating tax levy.

Taxes Receivable--Current Summer

The current summer taxes receivable of \$25,169 in the General Fund consists of the uncollected portion of the summer levy of one-third of the 2005 county operating millage (1.9207 mills) that had not yet been collected as of December 31, 2005. 100% of this levy was recorded as 2005 revenue to offset the \$188,267 transfer from the County's General Fund to the Revenue Sharing Fund in accordance with Public Act 357 of 2004.

Taxes Receivable--Current Winter

The 2005 State equalized valuation of Keweenaw County amounted to \$157,982,481 and the taxable valuation is \$98,447,215, on which ad valorem taxes of 3.8416 (two-thirds of the allocated millage) was levied for county operating purposes; special voted millage of .4899 mills for Sheriff Department operations; and 1.9598 mills for the care of Keweenaw County patients at the Houghton County Medical Care Facility. In addition, specific taxes are levied under the Commercial Forest Reserve Act.

The current winter taxes receivable of \$436,498 in the General Fund and \$198,048 in the Medical Care Facility (Special Revenue Fund) consist of the 2005 current tax levies that are levied on December 1, 2005 and used to finance 2006 county operations. Accordingly, the receivable amounts are recorded with an offsetting credit to deferred revenue-taxes.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes Receivable--Delinquent

The taxes receivable--delinquent of \$39,609 in the General Fund and \$8,117 in the Medical Care Facility (Special Revenue Fund) consist of unpaid real and personal property taxes levied on the 2002, 2003 and 2004 tax rolls for county operating and sheriff department operations in the General Fund and medical care facility services in the Medical Care Facility Fund. The county's policy is to recognize revenue from delinquent property taxes when collected. Accordingly, the delinquent taxes receivable are recorded in the county's financial statements with an offsetting credit to deferred revenue-taxes.

Inventories

The component unit (Road Commission) inventories, consisting of road materials of \$35,147 and equipment parts and materials of \$66,079, are priced at cost based on the average unit cost method. Inventory items are charged to road construction and maintenance, and to equipment repairs and operations, as used.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000 for the County, \$500 for the Mountain Lodge, \$200 for the Road Commission, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The capital assets of the Mountain Lodge were not updated between the years 1988 through 2001. Most of the assets would be at or near full depreciation. The total value is not known.

Capital assets used in governmental fund type operations are accounted for in the governmental activities column of the government-wide financial statements, this includes both the recognition of net capital assets as well as depreciation expense.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. Beginning with the fiscal year ended December 31, 2004, the Keweenaw County Road Commission has capitalized each current year's infrastructure, as required by GASB No. 34; and beginning with the fiscal year ended December 31, 2004, has reported the infrastructure in the Statement of Net Assets. The Road Commission has not retroactively capitalized the major infrastructure assets as of December 31, 2005, as permitted by GASB No. 34.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The depreciation on the county's capital assets is computed on the straight line basis. Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the operating fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating fund equity.

The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Vehicles	8 to 10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual result could differ from those estimates.

Other Financing Sources (Uses)

The transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General and Special Revenue Funds. The County Road Fund (special revenue-component unit) budget is adopted and administered by the board of county road commissioners. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budgets for the General and Special Revenue Funds are adopted at the function level and control is exercised at that level. Budgeted revenues and expenditures, as presented in Exhibits F through K, include the original budget and the final amended budget for the major funds, which contains authorized amendments to the original budgets as adopted.

Noncompliance with Budgeting Act:

Failure to Adopt a Balance Budget

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for the General Fund and special revenue funds. The legislative body shall also not adopt a general appropriations act or an amendment to that act which causes estimated total expenditures, including an accrued deficit, to exceed total estimated revenues, including an available surplus.

The following funds did not have an approved budget: Mountain Lodge, Jail Commissary and Probate Child Care Fund. The following funds adopted a budget with estimated total expenditures, including an accrued deficit, exceeding total estimated revenues and available surplus: Medical Care Facility and Construction Codes.

Excess of Expenditures Over Appropriations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The 2005 budget was not adopted until after the start of the calendar year. At the start of the year, the county was incurring expenditures in excess of the budget (because there was no budget adopted). The Mountain Lodge's board of trustees prepared a budget. However, it was not adopted at a public hearing and was approved after the start of the calendar year. During the year ended December 31, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the functions of the following special revenue funds:

<u>Fund/Activity or Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Expenditures Over Budget</u>
Special Revenue			
Mountain Lodge	\$ 955,600	\$ 1,039,802	\$ 84,202
Jail		3,341	3,341

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Fund Deficit

Public Act 140 of 1971 (MCL 141.921) requires the local unit of government to formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan.

The county has accumulated a fund balance deficit in the Medical Care Facility Fund in the amount of \$10,403. The county has not yet formulated and filed a deficit elimination plan, which should have been filed within 90 days after the beginning of the calendar year.

NOTE C--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws (MCL) 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The county's deposits and investments are in accordance with statutory authority.

The county has designated two banks for deposit of county funds. The investment policy adopted by the board is in accordance with Public Act 20 of 1943, as amended, and includes all of the above investments.

The risk disclosures for the county's deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 40, are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	<u>\$ 832,146</u>	<u>\$ 227,547</u>	<u>\$ 1,059,693</u>	<u>\$ 530,398</u>
Total	<u><u>\$ 832,146</u></u>	<u><u>\$ 227,547</u></u>	<u><u>\$ 1,059,693</u></u>	<u><u>\$ 530,398</u></u>

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,059,123	\$ 529,898
Petty Cash and Cash on Hand	<u>570</u>	<u>500</u>
Total	<u><u>\$ 1,059,693</u></u>	<u><u>\$ 530,398</u></u>

The bank balance of the primary government's deposits is \$1,165,235, of which \$126,660 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$660,300 of which \$100,000 was covered by Federal depository insurance.

Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law and have limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the county manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the county contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE D--TRANSFERS IN AND TRANSFERS (OUT)

The transfers between funds may be summarized as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Primary Government		Primary Government	
General Fund	\$ 60,142	Revenue Sharing Fund	\$ 60,142
Revenue Sharing	188,267	General Fund	220,267
Non-Major Governmental Funds	<u>32,000</u>		
Subtotal	<u>220,267</u>		<u> </u>
Total Transfers	<u><u>\$ 280,409</u></u>		<u><u>\$ 280,409</u></u>

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Capital Assets--Primary Government

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land	\$ 3,406,875			\$ 3,406,875
Mountain Lodge--Land	201,400			201,400
Mountain Lodge--Land Improvements	331,862	\$ 15,883		347,745
Mountain Lodge--Construction in Progress	26,409	58,248		84,657
Total Capital Assets Not Being Depreciated	3,966,546	74,131	\$ -	4,040,677
Capital Assets Being Depreciated				
Land Improvements	51,170			51,170
Buildings and Fixtures	472,203			472,203
Mountain Lodge Buildings and Fixtures	1,523,047	48,125		1,571,172
Office and Other Equipment	49,971	19,442		69,413
Mountain Lodge Office and Other Equipment	17,061	6,439		23,500
Vehicles	100,158	7,390	25,000	82,548
Mountain Lodge Vehicles	-	20,000	-	20,000
Total Capital Assets Being Depreciated	2,213,610	101,396	25,000	2,290,006
Less Accumulated Depreciation				
Land Improvements	7,677	2,559		10,236
Buildings and Fixtures	1,774,799	31,974		1,806,773
Office and Other Equipment	29,710	14,246		43,956
Vehicles	64,658	5,787	25,000	45,445
Total Accumulated Depreciation	1,876,844	54,566	25,000	1,906,410
Net Capital Assets Being Depreciated	336,766	46,830	-	383,596
Total Capital Assets	\$ 4,303,312	\$ 120,961	\$ -	\$ 4,424,273

The county's policy is to capitalize assets with a useful life greater than one year and a value of \$3,000 or more and the Mountain Lodge's capitalization policy is \$500 and a life greater than one year.

The Mountain Lodge did not have a detailed capital asset listing for the years of 1988-1998. If the equipment and vehicles still exist, they would most likely be fully depreciated. However, there were some major building construction and renovations that have occurred and the value has not been fully determined at this time.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 20,174
Public Safety	20,999
Recreation and Culture	<u>13,393</u>
Total Depreciation Expense	<u><u>\$ 54,566</u></u>

Capital Assets--Road Commission (Component Unit)

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 633,980	\$ 525		\$ 634,505
Infrastructure--Land Improvements	<u>40,000</u>	<u>38,120</u>		<u>78,120</u>
Subtotal	<u>673,980</u>	<u>38,645</u>	<u>\$ -</u>	<u>712,625</u>
Capital Assets Being Depreciated				
Buildings	244,589	413,076		657,665
Road Equipment	2,919,319	26,813		2,946,132
Shop Equipment	114,878	5,425		120,303
Office Equipment	99,014			99,014
Engineer's Equipment	51,398			51,398
Yard and Storage	2,258			2,258
Infrastructure--Bridges	433,897			433,897
Infrastructure--Roads	<u>194,246</u>	<u>421,774</u>		<u>616,020</u>
Total	<u>4,059,599</u>	<u>867,088</u>	<u>-</u>	<u>4,926,687</u>
Less Accumulated Depreciation				
Building	213,187	5,994		219,181
Road Equipment	2,346,390	204,847		2,551,237
Shop Equipment	104,970	2,172		107,142
Office Equipment	85,774	4,355		90,129
Engineer's Equipment	42,719	2,471		45,190
Yard and Storage	2,258			2,258
Infrastructure--Bridges	77,441	2,590		80,031
Infrastructure--Roads	<u>23,309</u>	<u>60,018</u>		<u>83,327</u>
Total	<u>2,896,048</u>	<u>282,447</u>	<u>-</u>	<u>3,178,495</u>
Net Capital Assets Being Depreciated	<u>1,163,551</u>	<u>867,088</u>	<u>282,447</u>	<u>1,748,192</u>
Total Net Capital Assets	<u><u>\$1,837,531</u></u>	<u><u>\$905,733</u></u>	<u><u>\$282,447</u></u>	<u><u>\$2,460,817</u></u>

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$204,847
Indirect Equipment	8,166
Net Administrative Expense	
Engineering Equipment	4,355
Office Equipment and Furniture	2,471
Infrastructure	<u>62,608</u>
Total Depreciation Expense	<u><u>\$282,447</u></u>

NOTE F--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of Keweenaw County, and the changes therein, may be summarized as follows:

Primary Government Long-Term Debt

	<u>Balances</u> <u>01/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>12/31/05</u>	<u>Due in One</u> <u>Year</u>
Governmental Activities				
<u>Primary Government</u>				
Accrued Employee Benefits (See Note G)	<u>\$ 55,934</u>	<u>\$ (19,199)</u>	<u>\$ 36,735</u>	<u> </u>
Total Long-Term Debt--Primary Government	<u><u>\$ 55,934</u></u>	<u><u>\$ (19,199)</u></u>	<u><u>\$ 36,735</u></u>	<u><u>\$ -</u></u>

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

The individual long-term debt and other long-term obligations of Keweenaw County's component unit and the changes therein, may be summarized as follows:

Component Unit (Road Commission) Long-Term Debt

	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Installment Purchase Agreement for Land Paid in Annual Installment of \$5,220 at an interest rate of 6%.	\$ 26,100	\$ (5,220)	\$ 20,880	\$5,220
Vested Employee Benefits				
Sick Leave Benefits	<u>150,326</u>	<u>901</u>	<u>151,227</u>	<u> </u>
Totals	<u>\$176,426</u>	<u>\$ (4,319)</u>	<u>\$172,107</u>	<u>\$5,220</u>

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

Land was purchased in April 2004 under an installment purchase agreement through Lake Superior Land Company. The original purchase price was \$26,100, with 5 annual principal payments of \$5,220 and an interest rate of 6.0%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
04/30/04	\$ 26,100	6.00%	2006	\$ 5,220	\$ 1,253
			2007	5,220	940
			2008	5,220	626
			2009	<u>5,220</u>	<u>313</u>
Total				<u>\$ 20,880</u>	<u>\$ 3,132</u>

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE G--COMPENSATED BENEFITS

Accrued Vacation and Sick Leave Payable

The County and Road Commission (component unit) has an accrued liability to their employees for accumulated vacation and vested sick leave benefits as of December 31, 2005, as follows:

	<u>Vacation</u>	<u>Sick Leave</u>	<u>Total</u>
Primary Government			
County General Employees	\$ 2,891	\$ 14,411	\$ 17,302
Sheriff Department Employees	<u>3,379</u>	<u>16,054</u>	<u>19,433</u>
Total Primary Government	<u>\$ 6,270</u>	<u>\$ 30,465</u>	<u>\$ 36,735</u>
Component Unit--Road Commission			
Road Commission Employees	<u>\$ 150,326</u>	<u>\$ 901</u>	<u>\$151,227</u>
Total Component Unit	<u>\$ 150,326</u>	<u>\$ 901</u>	<u>\$151,227</u>
Total Accrued Employee Benefits Payable--Reporting Entity	<u>\$ 156,596</u>	<u>\$ 31,366</u>	<u>\$187,962</u>

VACATION BENEFIT POLICIES

County General Employees--(Primary Government)

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are credited with their annual vacation benefits earned on their employment anniversary, and are required to use all vacation within one year.

Road Commission Employees

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

SICK LEAVE BENEFIT POLICIES

County General Employees--(Primary Government)

The county's employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day per month, with a maximum accumulation of 90 days. Upon separation from employment with the county, the employee shall be paid for 50 percent of his/her accumulated unused sick leave at the current wage rate.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE G--COMPENSATED BENEFITS (Continued)

Road Commission Employees

Road Commission sick leave benefit policies provide that each employee earns one day of sick leave for each month of employment, to a maximum accumulation of 180 days. Employees not using any sick leave during the year will be paid a bonus equivalent to one week at their regular rate at the end of the year. An employee's accumulated sick leave will be paid upon leaving, or death at 100%, up to a maximum of 90 days based on the employee's pay rate at that time, providing the employee has at least 5 years employment with the Road Commission.

The amount recorded as vested employee sick leave benefits represents only the accumulated days, up to a maximum of 90, for those employees with 5 or more years of employment with the Road Commission.

NOTE H--DEFERRED COMPENSATION

The County and Road Commission offers all its regular employees and elected officials, various deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (county and road commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County or Road Commission's financial statements.

NOTE I--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Keweenaw County and the component unit, the Keweenaw County Road Commission have separate agent multiple-employer defined benefit pension plans with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The plan's pension service requirements are computed using credited service at the time of termination of membership multiplied by the sum of 2% for county general and sheriff employees and 2.25% for road commission employees times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2004.

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12(a)), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County and Road Commission's competitive bargaining unit and personnel policy. The County requires an employee contribution of 1.0% and the Road Commission does not require employees to contribute to the plan. The calendar year 2004 required pension contributions were 9.76%, 10.66% and 8.39%, of covered payroll for the county, sheriff and the Road Commission, respectively.

Annual Pension Cost

For the calendar year ended December 31, 2004, the annual pension costs were \$52,085 for the County and \$81,629 for the Road Commission which was equal to their required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)		Percentage of APC Contributed		Percentage of APC Contributed	
	County	Road	County	Road	County	Road
2002	\$ 40,999	\$ 44,456	100%	100%	\$0	\$0
2003	46,331	73,107	100%	100%	\$0	\$0
2004	52,085	81,269	100%	100%	\$0	\$0

COUNTY OF KEWEENAW

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

Required Supplementary Information for GASB Statement No. 27

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL (UAAL) (1)-(2)	Funded Ratio (1)/(2)	Covered Payroll	UAAL as a Percent of Covered Payroll
2002						
General	\$ 694,917	\$ 1,031,414	\$ (336,497)	67%	\$472,853	-71%
Road	3,506,836	3,659,227	(152,391)	96%	791,912	-19%
2003						
General	800,269	1,156,434	(356,165)	69%	497,777	-72%
Road	3,681,829	4,252,946	(571,117)	87%	762,777	-75%
2004						
General	903,655	1,274,775	(371,120)	71%	505,137	-73%
Road	3,758,803	4,870,536	(1,111,733)	77%	760,162	-146%

NOTE J--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note I, the Keweenaw County Road Commission provides post-employment health care benefits and life insurance coverage, in accordance with Article 16, Section B, and Article 17 of their working agreement. The health care benefit provides that any permanent employee who becomes disabled or retires at any age after 5 years of service with the Road Commission shall have their hospitalization insurance premium paid for a period of 3 years by the Road Commission. Currently, 6 retirees are eligible for this post-employment benefit. The life insurance benefit provides that the Road Commission will pay for group term life insurance coverage in the amount of \$2,000 for each retired employee. Currently, 12 retirees are covered by this benefit. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year 2005, expenditures of approximately \$64,229 were recognized for post-employment health care benefits and \$346 for life insurance benefits.

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended December 31, 2005, the Federal Aid received and expended by the Road Commission was \$100,131 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE L--RISK MANAGEMENT

The County and Road Commission (component unit) are exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

County General

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The county (including the Keweenaw Mountain Lodge) has purchased commercial insurance for risks of loss related to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. The county is uninsured for acts of God and environmental cleanup losses. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The Michigan Township Participating Plan operates as an insurance-purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Road Commission (Component Unit)

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions, bodily injury, property damage, and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

COUNTY OF KEWEENAW
NOTES TO FINANCIAL STATEMENTS

NOTE L--RISK MANAGEMENT (Continued)

At December 31, 2005, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE M--SUBSEQUENT EVENT

In 2006, the county established a 10 member Parks Commission in accordance with State statutes and transferred the responsibility for the administration of the Keweenaw Mountain Lodge from the County Park Trustees (Board of Road Commissioners) to the Parks Commission. The Parks Commission has approved plans for a major capital improvement project at the Mountain Lodge that is expected to be funded with a Federal economic development administration (EDA) grant of \$1,764,000 and a Federal rural development loan of \$1,273,000. The revenue bond loan is expected to have an interest rate of 4.125%, with payment of interest only for the first three years and principal and interest payable over the next 27 years. The bonds will be backed by the full faith and credit of Keweenaw County. The annual debt obligations are expected to be paid from Keweenaw Park operating revenues.

NOTE N--CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2003, the county implemented several new accounting standards issued by GASB, (this is the first audit since the accounting principle change):

Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement No. 36, "Recipient Reporting for Certain Shared Non-Exchange Revenues," which establishes standards for recording nonexchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations, and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," which requires certain note disclosures when implementing GASB Statement No. 34.

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT F

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes and Penalties	\$ 787,837	\$ 976,104	\$ 1,014,448	\$ 38,344
Licenses and Permits	1,650	1,650	2,186	536
Federal Grants	68,072	75,179	72,771	(2,408)
State Grants	164,107	204,731	213,941	9,210
Township Contributions	1,000	1,000	-	(1,000)
Charges for Services	40,950	40,950	59,253	18,303
Fines and Forfeits	300	300	310	10
Interest and Rentals	17,400	17,400	18,842	1,442
Other Revenue	4,300	4,300	5,600	1,300
Total Revenues	1,085,616	1,321,614	1,387,351	65,737
Expenditures				
Current				
General Government	461,123	664,542	613,547	50,995
Public Safety	415,727	566,332	548,219	18,113
Health and Welfare	50,100	53,526	44,603	8,923
Community and Economic Development	13,859	14,595	14,197	398
Recreation and Cultural	200	200	200	-
Other	330,368	30,000	29,984	16
Capital Outlay	33,800	37,497	26,832	10,665
Total Expenditures	1,305,177	1,366,692	1,277,582	89,110
Excess of Revenues Over (Under) Expenditures	(219,561)	(45,078)	109,769	154,847
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	-	60,142	60,142	-
Interfund Transfers (Out)	(33,000)	(224,267)	(220,267)	4,000
Total Other Financing Sources (Uses)	(33,000)	(164,125)	(160,125)	4,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(252,561)	(209,203)	(50,356)	158,847
Fund Balance--January 1, 2005	252,561	252,561	502,240	249,679
Fund Balance--December 31, 2005	\$ -	\$ 43,358	\$ 451,884	\$ 408,526

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
KEWEENAW MOUNTAIN LODGE
MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

EXHIBIT G

	<u>BUDGETED AMOUNTS</u>			Variance With
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues				
Charges for Services			\$ 936,214	\$ (936,214)
Interest and Rents			4,039	(4,039)
Other			289	(289)
Total Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>940,542</u>	<u>(940,542)</u>
Expenditures				
Recreational and Cultural			891,107	(891,107)
Capital Outlay			148,695	(148,695)
Total Expenditures	<u>-</u>	<u>-</u>	<u>1,039,802</u>	<u>(1,039,802)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>-</u>	<u>-</u>	<u>(99,260)</u>	<u>(99,260)</u>
Fund Balances--January 1, 2005	<u>-</u>	<u>-</u>	<u>99,701</u>	<u>(99,701)</u>
Fund Balances--December 31, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 441</u>	<u>\$ (198,961)</u>

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
COUNTY 911 SERVICE
MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

EXHIBIT H

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State Grants	\$ 50,000	\$ 57,000	\$ 78,194	\$ (21,194)
Contributions From Local Units		3,000	2,474	526
Charges for Services			1,650	(1,650)
Total Revenues	50,000	60,000	82,318	(22,318)
Expenditures				
Public Safety	51,982	51,982	39,207	12,775
Total Expenditures	51,982	51,982	39,207	12,775
Excess of Revenues Over (Under) Expenditures	(1,982)	8,018	43,111	35,093
Fund Balances--January 1, 2005	126,038	126,038	126,038	-
Fund Balances--December 31, 2005	\$ 124,056	\$ 134,056	\$ 169,149	\$ 35,093

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT
For the Year Ended December 31, 2005

EXHIBIT I

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants			\$ 31,316	\$ (31,316)
Interest and Rents	\$ 19,920	\$ 19,920	19,920	-
Total Revenues	19,920	19,920	51,236	(31,316)
Expenditures				
Community and Economic Development	42,950	72,950	38,963	33,987
Recreational and Cultural		20,000	19,000	1,000
Other		20,000	12,334	7,666
Total Expenditures	42,950	112,950	70,297	42,653
Excess of Revenues Over (Under) Expenditures	(23,030)	(93,030)	(19,061)	73,969
Fund Balances--January 1, 2005	103,607	103,607	103,607	-
Fund Balances--December 31, 2005	<u>\$ 80,577</u>	<u>\$ 10,577</u>	<u>\$ 84,546</u>	<u>\$ 73,969</u>

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING
For the Year Ended December 31, 2005

EXHIBIT J

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and Rents		\$ 1,200	\$ 1,281	\$ (81)
Total Revenues	\$ -	1,200	1,281	81
Expenditures				-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under)				
Expenditures	-	1,200	1,281	81
Other Financing Sources (Uses)				
Operating Transfers In--Primary Government		188,267	188,267	-
Operating Transfers (Out)--Primary Government		(60,142)	(60,142)	-
Total Other Financing Sources (Uses)	-	128,125	128,125	-
Excess of Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	-	129,325	129,406	81
Fund Balances--January 1, 2005	-	-	-	-
Fund Balances--December 31, 2005	\$ -	\$ 129,325	\$ 129,406	\$ 81

KEWEENAW COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MEDICAL CARE FACILITY
For the Year Ended December 31, 2005

EXHIBIT K

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 118,000	\$ 129,000	\$ 128,218	\$ 782
Total Revenues	118,000	129,000	128,218	(782)
Expenditures				
Health and Welfare	158,000	169,000	167,593	1,407
Total Expenditures	158,000	169,000	167,593	1,407
Excess of Revenues Over (Under) Expenditures	(40,000)	(40,000)	(39,375)	625
Fund Balances--January 1, 2005	28,972	28,972	28,972	-
Fund Balances--December 31, 2005	\$ (11,028)	\$ (11,028)	\$ (10,403)	\$ 625

**KEWEENAW COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2005**

EXHIBIT L

	Friend of the Court	Building Inspection	Register of Deeds Automation	Budget Stabilization	Jail Commissary	Law Library	Housing 2005-06	Rehabilitation Grants 2003-04	Probate Child Care	Veterans' Trust	Total
<u>ASSETS</u>											
Cash	\$ 3,518	\$ 1,992	\$ 14,889	\$ 20,000	\$ 91	\$ 2,421	\$ 18,956		\$ 3,954	\$ 613	\$ 66,434
Due From State of Michigan									9,171		9,171
Total Assets	\$ 3,518	\$ 1,992	\$ 14,889	\$ 20,000	\$ 91	\$ 2,421	\$ 18,956	\$ -	\$ 13,125	\$ 613	\$ 75,605
<u>LIABILITIES AND FUND BALANCES</u>											
Liabilities											
Accounts Payable									\$ 5,502		\$ 5,502
Deferred Revenue--Other							\$ 18,956				18,956
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	18,956	\$ -	5,502	\$ -	24,458
Fund Balance											
Unreserved--Undesignated	3,518	1,992	14,889	20,000	91	2,421	-	-	7,623	613	51,147
Total Fund Balances	3,518	1,992	14,889	20,000	91	2,421	-	-	7,623	613	51,147
Total Liabilities and Fund Balances	\$ 3,518	\$ 1,992	\$ 14,889	\$ 20,000	\$ 91	\$ 2,421	\$ 18,956	\$ -	\$ 13,125	\$ 613	\$ 75,605

KEWEENAW COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

EXHIBIT M

	Friend of the Court	Building Inspection	Register of Deeds Automation	Budget Stabilization	Jail Commissary	Law Library	Housing Rehabilitation Grants		Probate Child Care	Veterans' Trust	Total
Revenues											
Licenses and Permits		\$ 43,922									\$ 43,922
Federal Grants							\$ 13,550	\$ 16,817	\$ 9,350		39,717
State Grants									42,731	\$ 71	42,802
Charges for Services	\$ 310		\$ 5,285		\$ 3,140				225		8,960
Fines and Forfeits						\$ 2,000					2,000
Interest and Rents			398								398
Other							21,901		675		22,576
Total Revenues	310	43,922	5,683	\$ -	3,140	2,000	35,451	16,817	52,981	71	160,375
Expenditures											
General Government						1,872					1,872
Public Safety		39,224			3,341						42,565
Health and Welfare									80,837		80,837
Community and Economic Development							35,451	16,817			52,268
Total Expenditures	-	39,224	-	-	3,341	1,872	35,451	16,817	80,837	-	177,542
Excess of Revenue Over (Under) Expenditures	310	4,698	5,683	-	(201)	128	-	-	(27,856)	71	(17,167)
Other Financing Sources (Uses)											
Operating Transfers In				2,000					30,000		32,000
Total Other Financing Sources (Uses)	-	-	-	2,000	-	-	-	-	30,000	-	32,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	310	4,698	5,683	2,000	(201)	128	-	-	2,144	71	14,833
Fund Balance--January 1, 2005	3,208	(2,706)	9,206	18,000	292	2,293	-	-	5,479	542	36,314
Fund Balance--December 31, 2005	\$ 3,518	\$ 1,992	\$ 14,889	\$ 20,000	\$ 91	\$ 2,421	\$ -	\$ -	\$ 7,623	\$ 613	\$ 51,147

**KEWEENAW COUNTY
COMBINING BALANCE SHEET
ALL TRUST AND AGENCY FUNDS
December 31, 2005**

EXHIBIT N

	<u>AGENCY FUNDS</u>		
	General Agency	Library (Penal Fines) Fund	Total
<u>ASSETS</u>			
Cash	\$ 225,905	\$ 1,642	\$ 227,547
Total Assets	<u>\$ 225,905</u>	<u>\$ 1,642</u>	<u>\$ 227,547</u>
<u>LIABILITIES</u>			
Due to State of Michigan	\$ 1,601		\$ 1,601
Undistributed Penal Fines		\$ 1,642	1,642
Undistributed Tax Collections	223,794		223,794
Other Trust Items Payable	<u>510</u>		<u>510</u>
Total Liabilities	<u>\$ 225,905</u>	<u>\$ 1,642</u>	<u>\$ 227,547</u>

KEWEENAW COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT O

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Taxes				
Current Winter Property Taxes	\$ 510,000	\$ 510,000	\$ 523,722	\$ 13,722
Current Summer Property Taxes		188,267	189,088	821
Delinquent Real Property Tax	30,500	30,500	29,489	(1,011)
Delinquent Personal Property Tax	6,500	6,500	614	(5,886)
Commercial Forest Tax	50,000	50,000	72,075	22,075
Swamp Lands Tax	2,787	2,787	2,787	-
Federal Payments-in-Lieu of Taxes	180,000	180,000	187,426	7,426
Interest on Taxes	2,700	2,700	1,763	(937)
Tax Collection Fees	4,450	4,450	6,074	1,624
Expense of Sale	900	900	1,410	510
Total Taxes	787,837	976,104	1,014,448	38,344
Licenses and Permits				
Marriage Licenses	200	200	220	20
Marriage License Counseling Fees	300	300	330	30
Dog Licenses	50	50	50	-
Pistol Permits	600	600	861	261
Zoning Variance	500	500	725	225
Total Licenses and Permits	1,650	1,650	2,186	536
Federal Grants				
Emergency Services Program	6,572	6,572	4,772	(1,800)
State Homeland Security Grants	61,000	68,107	66,307	(1,800)
ADC Incentive Program	500	500	1,692	1,192
Total Federal Grants	68,072	75,179	72,771	(2,408)
State Grants				
Probate Judge Salary	20,000	20,000	20,000	-
Judges' Salary Standardization	11,636	11,636	11,636	-
Judges' FICA	2,600	2,600		(2,600)
Caseflow Assistance	300	300	647	347
Court Equity Fund	7,400	7,400	8,099	699
Juror Compensation Reimbursement			190	190
Secondary Road Patrol	26,000	26,000	21,715	(4,285)
Marine Safety Program	3,000	3,000	905	(2,095)

KEWEENAW COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT O
(CONTINUED)

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Snowmobile Safety Program	12,000	12,000	10,591	(1,409)
Diverted Felons Program	6,000	6,000	8,482	2,482
Juvenile Officer Salary	27,317	27,317	27,317	-
Act 302 Officer Training	1,000	1,000	1,349	349
Liquor License Fees	69	69	82	13
Voter Registrations	35	35	45	10
State Cigarette Tax	1,200	1,200	1,438	238
Convention Facilities Tax	9,000	9,000	10,101	1,101
State Remonumentation Grant	36,550	77,174	77,174	-
Fingerprint Machine Grant			14,170	14,170
Total State Grants	164,107	204,731	213,941	9,210
Contributions From Local Units				
Township Contributions	1,000	1,000		(1,000)
Charges for Services				
Circuit Court Costs	200	200	2,821	2,621
District Court Costs	10,000	10,000	10,083	83
Circuit Court Services	800	800	955	155
Friend of the Court Services	500	500	1,306	806
Probate Court Services	1,200	1,200	2,091	891
Treasurer Services	350	350	603	253
Clerk Services	900	900	2,109	1,209
Register of Deeds Services	12,050	12,050	13,607	1,557
Land Transfer Tax	10,000	10,000	15,737	5,737
District Court Civil Fees	500	500	1,384	884
Sheriff Services	500	500	591	91
Tax Department Services	1,500	1,500	2,786	1,286
Prisoners Board and Care	2,000	2,000	4,462	2,462
Boat Livery Inspections	70	70	76	6
Prescription Program Fees	70	70	27	(43)
Telephone Calls	110	110	211	101
Sale of Supplies & Maps	200	200	404	204
Total Charges For Services	40,950	40,950	59,253	18,303
Fines & Forfeits				
Bond Forfeitures	300	300	310	10

KEWEENAW COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT O
(CONTINUED)

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Interest and Rents				
Interest Earned on Deposits	15,000	15,000	18,842	3,842
Insurance Dividends	1,200	1,200		(1,200)
Rental Income	1,200	1,200		(1,200)
Total Interest and Rents	17,400	17,400	18,842	1,442
Other Revenue				
Sale of Capital Assets			1,251	1,251
Reimbursements				
Election Expenses	300	300		(300)
Transporting Patients	1,000	1,000	663	(337)
General Reimbursements and Refunds	3,000	3,000	3,686	686
Total Other Revenue	4,300	4,300	5,600	1,300
Total Revenue	1,085,616	1,321,614	1,387,351	65,737
Other Sources				
Operating Transfers In From Revenue Sharing Fund		60,142	60,142	
Total Revenues and Other Sources	\$ 1,085,616	\$ 1,381,756	\$ 1,447,493	\$ 65,737

KEWEENAW COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT P

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
General Government				
Board of Commissioners	\$ 27,839	\$ 29,539	\$ 27,671	\$ 1,868
Circuit Court	23,850	23,850	14,211	9,639
District Court	38,930	60,430	53,088	7,342
District Court Magistrate	3,875	4,045	4,036	9
Friend of the Court	4,000	4,000	2,422	1,578
Jury Commission	850	850	98	752
Probate Court	42,283	60,983	58,405	2,578
Juvenile Officer	25,319	46,519	46,118	401
Elections	3,000	3,000	95	2,905
Audit Services	3,000	3,300	2,803	497
County Budget		500	500	-
Clerk	48,430	68,030	56,933	11,097
Equalization Department	61,900	99,900	99,801	99
Prosecuting Attorney	39,110	51,510	51,482	28
Register of Deeds	2,950	2,950	731	2,219
Remonumentation Commission	36,550	77,174	77,174	-
Treasurer	56,620	76,220	73,841	2,379
Cooperative Extension Service	1,300	1,600	1,218	382
Courthouse and Grounds	37,725	46,525	40,366	6,159
UP Resource and Conservation District	300	325	325	-
Record Copying	2,000	2,000	1,092	908
Internet Services	1,292	1,292	1,137	155
Total General Government	461,123	664,542	613,547	50,995
Public Safety				
Sheriff	212,000	351,798	350,838	960
Act 302 Officer Training	1,000	1,000	644	356
Marine Safety Program	1,950	2,250	1,719	531
Snowmobile Safety Program	20,724	14,324	9,782	4,542
Secondary Road Patrol	37,500	38,900	33,837	5,063
Jail	63,410	69,810	64,795	5,015
Mine Inspector	5,000	6,000	5,971	29
Emergency Services Program	13,143	14,143	12,526	1,617
State Homeland Security Grants	61,000	68,107	68,107	-
Total Public Safety	415,727	566,332	548,219	18,113
Health and Welfare				
District Health Department	20,800	21,176	21,176	-
District Health--Cigarette Tax	1,200	1,200	1,015	185
Substance Abuse Coordinating Agency	5,000	5,050	5,050	-
Medical Examiner	11,200	11,200	4,146	7,054
Community Mental Health Authority	8,500	8,500	8,500	-
Department of Human Services	1,000	4,000	2,316	1,684
Human Services Coordinating Body	300	300	300	-
Veterans' Burials	2,100	2,100	2,100	-
Total Health and Welfare	50,100	53,526	44,603	8,923

KEWEENAW COUNTY
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT P
(CONTINUED)

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Community and Economic Development				
Zoning Commission	8,500	8,900	8,502	398
Western U.P. Coordinating Agency		336	336	-
Western UP Planning and Development Region	4,659	4,659	4,659	-
UPCAP	200	200	200	-
Keweenaw Industrial Council	500	500	500	-
Total Community and Economic Development	13,859	14,595	14,197	398
Recreation and Cultural				
UP Travel and Recreation Association	200	200	200	-
Other				
Insurance and Bonds	30,000	30,000	29,984	16
Workers' Compensation Insurance	17,000			
Employee Hospitalization Insurance	155,000			
Employee Prescriptions	4,500			
Payments In Lieu of Insurance	9,600			
Employee Life Insurance	800			
Employee Retirement	52,800			
Social Security and Medicare	54,000			
Unemployment Tax	6,500			
Other Employee Benefits	168			
Total Other	330,368	30,000	29,984	16
Capital Outlay	33,800	37,497	26,832	10,665
Total Expenditures	1,305,177	1,366,692	1,277,582	89,110
Other Uses				
Operating Transfers (Out)--Primary Government				
Construction Codes Fund		3,000		3,000
Law Library Fund	1,000	1,000		1,000
Budget Stabilization Fund	2,000	2,000	2,000	-
Revenue Sharing Fund		188,267	188,267	-
Probate Child Care Fund	30,000	30,000	30,000	-
Total Other Uses	33,000	224,267	220,267	4,000
Total Expenditures and Other Uses	\$ 1,338,177	\$ 1,590,959	\$ 1,497,849	\$ 93,110



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

September 21, 2006

Keweenaw County Board of Commissioners
Keweenaw County Courthouse
Unit 1, Box 7
Eagle River, Michigan 49950

RE: Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance with Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Keweenaw County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise Keweenaw County's basic financial statements and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Keweenaw County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and to be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Keweenaw County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the management, the county board, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

COUNTY OF KEWEENAW
COMMENTS AND RECOMMENDATIONS

PRIOR AUDIT REPORTABLE CONDITIONS

The following reportable condition was included in our previous (1999) Keweenaw County "Report of Comments and Recommendations," and is being repeated in this report because we found no significant improvements in the reported condition.

Fixed Assets Records--Keweenaw Park

Finding 97-2

Condition: Previous Keweenaw County audit reports included comments and recommendations relative to the county's failure to update the general fixed assets of the Keweenaw Park (Park) since 1987.

Recommendation: We recommend that the county take appropriate action to update the existing detailed general fixed asset records of the Keweenaw Park. The Park needs a physical inventory of their fixed assets and establish records for those assets which are not presently recorded, and recording the disposition of those assets. The general fixed asset totals, by category, should then be properly recorded in the Keweenaw Park Fund's general ledger; and the detailed records and general ledger control accounts should be adjusted at least annually for changes in the general fixed assets.

Management's Response--Corrective Action Plan: Contact person is Frank Stubenrauch, Chairperson, Keweenaw County Board of Commissioners, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-2229.

The Keweenaw Parks Board and the Park's Manager have been sent a copy of this reportable condition requesting that action be finally taken on this manner. Our liaison person to the Keweenaw Park Board will also attend the Park Board meeting on October 14 to urgently press this issue. Hopefully, there will have been movement on this matter by the time of your next visit.

OTHER REPORTABLE CONDITIONS

In addition to the prior audit reportable condition disclosed above, we wish to point out certain other reportable conditions for consideration by the management of Keweenaw County.

Personnel Files

Finding 03-2

Condition: Currently, personnel files are not maintained for county employees, although much of the information that belongs in a personnel file is recorded or noted in other records.

Criteria: A personnel file should be created for each employee and should include, at a minimum, the following: employment application and new employee investigation, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, earnings records, W-4 form, authorization to work in the U.S. (INS Form I-9), and termination date, where appropriate.

COUNTY OF KEWEENAW
COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS (Continued)

Recommendation: We recommend that the county establish and maintain personnel files for each employee.

Management's Response–Corrective Action Plan: Contact person is Marilyn Winquist, Keweenaw County Clerk, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-2229.

I intend to establish and maintain personnel files for each employee.

Accounting for Grants

Finding 03-3

Condition: The county contracts out the administrative work on numerous grants it receives, but the county does not record the financial activity of those grants on its accounting system.

Recommendation: We recommend the county record all grant financial activity in appropriate funds on its accounting system.

Management's Response–Corrective Action Plan: Contact person is Geri Hall, Keweenaw County Treasurer, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-1625.

I intend to record all grant activity on the county general ledger beginning in 2004.

COUNTY OF KEWEENAW
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Proper Fund Type

Finding 03-4

Condition: The Keweenaw Park and Jail Commissary Funds are recorded as Special Revenue Funds.

Criteria: The Michigan Department of Treasury Uniform Chart of Accounts for Counties and Local Units of Government provides that they be enterprise funds.

Recommendation: We recommend the county maintain and recognize the Keweenaw Park and Jail Commissary Funds as enterprise funds.

Management's Response--Corrective Action Plan: Contact person is Geri Hall, Keweenaw County Treasurer, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-1625.

The county intends to record the Keweenaw Park and Jail Commissary Funds as enterprise funds on the county general ledger and report them as enterprise funds in the county financial statements beginning in 2004.

Expenditures in Excess of Appropriations--County's Budgetary Funds

Finding 03-5

Condition: Our examination of procedures used by the county to adopt and maintain operating budgets for the county's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the "Uniform Budgeting and Accounting Act."

The County's 2003 General Appropriations Act (budget) provided for expenditures of the General Fund and Special Revenue Funds to be controlled to the function level by the county.

As detailed in Note B to the financial statements, actual 2003 expenditures exceeded the board's approved budget allocations for 6 Special Revenue Fund functions.

As stated in previous reports, the expenditures of funds in excess of appropriations is contrary to the provisions of the "Uniform Budgeting and Accounting Act."

COUNTY OF KEWEENAW

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

Recommendation: We recommend that the county's chief administrative officer (county clerk) and those boards, commissions, and administrative personnel responsible for administering the activities of the various funds of the county, develop budgetary control procedures for the general fund activity or special revenue function which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof. These procedures should include a requirement that each county department head be responsible for monitoring the budgetary status of his or her activity(ies) monthly. Department heads must also be required to make formal requests to the county clerk for budget amendments prior to incurring expenditures in excess of board authorized amounts.

Management's Response--Corrective Action Plan: Contact person is Marilyn Winquist, Keweenaw County Clerk, 5095 Fourth Street, Eagle River, Michigan 49950. Telephone (906) 337-2229.

Management has agreed to correct the problem by monitoring the budgets more closely and making budget amendments on a timely basis.

Sheriff Department--Jail Commissary--2005

Condition: The Sheriff's Department operates a commissary for the benefit of the inmates. Revenue from the sale of commissary items is put into a cash box and commissary supplies for inmates are paid out of this cash box that is under the custody of the Sheriff Department. Once a year, as the profits have accumulated, the Sheriff's Department will deposit the profits into the commissary checking account.

Criteria: The Michigan Department of Treasury Uniform Chart of Accounts for Counties and Local Units of Government in Michigan requires that all of the commissary activity be accounted for in fund number 595 - Commissary Fund.

Recommendation: We recommend that the Sheriff's Department deposit all commissary revenue with the county treasurer at least monthly. Commissary Fund expenditures should be submitted to the board of commissioners for approval whenever possible. An imprest cash or checking account may be established to pay suppliers that require immediate payment. When an imprest account is used, the Sheriff's Department should request reimbursement, at least monthly from the clerk's office, for expenditures made from this account. The imprest account should be reconciled monthly.